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C O N F I D E N T I A L SECTION 01 OF 03 HAVANA 000490

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TAGS: [ECON](#) [PREL](#) [PGOV](#) [PINR](#) [CU](#)

SUBJECT: CUBA'S ECONOMY - WHERE TWO PLUS TWO EQUALS THREE

REF: A. HAVANA 477

[1](#)B. HAVANA 322

[1](#)C. HAVANA 208

[1](#)D. HAVANA 33

[1](#)E. HAVANA 78 AND PREVIOUS

Classified By: COM Jonathan Farrar for reasons 1.4 (b) and (d)

Summary

[1](#)1. (C) Amidst a flurry of activity starting with Raul Castro's July 26 speech and ending with the August 1 National Assembly, Raul and his ministers painted a desperate picture of the Cuban economy. The Government of Cuba (GOC) lowered its GDP growth projection for the second time in three months and Raul promised to cut expenditures to bring them in line with expected revenue. The GOC approved measures to address the "tense financial situation," without offering any details, and predicted an equally difficult 2010. Expectations for any meaningful reform have been delayed along with the Sixth Party Congress (Ref A). Instead, we can expect the GOC to continue to offer only marginal steps (forward and backward) including Raul's latest suggestions to improve the productivity of Cuban land by farming with oxen instead of tractors and sending young communists out to plant trees. Meanwhile, it remains too early to tell if or when earlier reforms, such as the leasing of idle farm land, may impact Cuba's bottom line. End Summary

I,m No Economist, but...

[1](#)2. (SBU) Vice President and Minister of Economy and Planning Marino Murillo Jorge reported on July 30 to the Central Committee of the Cuban Communist Party (PCC) a GDP growth forecast of 1.7 percent, down from 2.5 percent reported in April/May (Ref C) and 6 percent forecast in December (Ref D). (Note: The calculation of GDP in Cuba is not comparable with other countries, but GDP movements within a Cuban context are noteworthy. End Note.) The economy grew by 0.8 percent in the first half of 2009, which means the GOC expects the economy to grow faster in the second half of 2009 (in order to average 1.7 percent overall) probably due to an improved trade deficit led by slightly higher prices for nickel and an across the board reduction in imports. Reuters

reported on July 21 that Cuba had lowered its forecast for imports by 22 percent and exports by 13 percent. The new estimated trade (in goods) deficit of around USD 8 billion is USD 3 billion less than Cuba's record 2008 negative balance, but remains unsustainable. Tourism, a significant source of foreign income, is up in terms of the number of visitors but down in terms of revenue. Tourists are buying cheaper packages and spending less time and money in Cuba. According to Raul, Cuba is also affected by a weaker U.S. dollar. Economy Minister Murillo added that Cuba's economic conditions in 2010 promise to be equally difficult.

13. (C) Raul also acknowledged Cuba's liquidity issues (Ref B) and committed to repay all of its debts. We understand from some diplomatic contacts that most foreign businesses started receiving token payments on long overdue debts in July. Credit lines with foreign banks, including BNP Paribas and Societe Generale, are being renegotiated. In a public effort to save every penny, Cuba continues with an austerity energy plan introduced in June. The electricity and fuel restrictions even affect businesses that capture foreign currency like shopping markets and restaurants. One paladar owner told us that they could lose their operating license if they use more than their quota of electricity even though the paladar pays for the high electricity rates in Cuban Convertible Currency, rather than the subsidized rates paid in local national currency by state entities and residences.

14. (C) To his credit, Raul's speeches did not solely blame all of Cuba's present economic and financial woes on the U.S. embargo, the world financial crisis, or the 2008 hurricanes. More than ever before, Raul emphasized the responsibility of

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Cubans and, more surprisingly, the responsibility of the Cuban system. Specifically, he said, "I'm no economist, nor has it been my responsibility during the years of the revolution to focus on the details of developing the economy, but I believe in the idea that, as I said in the last session of the Parliament, no one, no person or country, can spend more money than they earn. Two plus two always equals four, never five. Today...in the conditions of our imperfect socialism, because of our own shortcomings, two plus two often produces three." Since his first speech as interim president in July 2007, Raul has surprised Cubans by candidly highlighting many of the symptoms of the failed economic system in Cuba (lack of housing, water, electricity, and food; high levels of inefficiency, bureaucracy, and corruption) and some of the causes (lack of incentives to work, two currencies, and an aging population). What he has failed to identify (or admit) are the root causes endemic to a system where the government tries to control every aspect of the economy, and of life in general.

Raul's Latest Solutions: Oxen and Trees

15. (SBU) The GOC has not publicly detailed its plans to resolve its liquidity and deficit issues, other than to vaguely mention guidelines adopted by the Central Committee on July 29 to balance Cuba's twin deficits. According to Raul, changing Cuba's economic system is not an option (Ref A). Unlike in previous July 26 and National Assembly speeches, Raul offered no new initiatives. Instead, he focused on the status of previous initiatives: leasing idle land (see below), a new Comptroller General (Ref A), the energy austerity plan, and urging retired teachers back to work. Meanwhile, Raul failed to mention the status of one of his most promising proposals - pay for performance - which has passed several public deadlines without taking full effect.

16. (SBU) Rather than proposals, Raul spent a lot of time in both speeches on one of his most common themes - extolling Cubans, especially young Cubans, to return to the land and

make it fruitful. "The land is there, the Cubans are here, let us see if we work or not, if we make the earth yield or not..." Raul said in his July 26 speech. In both speeches, he referenced the use of oxen to till the land and transport goods. He praised a new "suburban agriculture" program starting in Camaguey and to be rolled out to other municipalities using animal traction. "In this project, let us forget about tractors and fuel, even if we had them in sufficient quantities..." Where the land is useless for food production, Raul urged young and old to plant trees, "which represent a major wealth too." The GOC has identified increasing agricultural production in order to substitute imports as a matter of national security.

17. (C) In that regard, Raul also reported on the status of the initiative launched in September 2008 to lease idle land (Ref D). Raul said that 82,000 applications for 690,000 hectares (1.7 million acres) of land have been approved and distributed. One-third of that amount (225,000 hectares or 550,000 acres) has been sowed, which represents about 6 percent of all state and non-state (cooperatives and some private) idle land in Cuba. Success stories in the press mainly highlight retired Cubans who have taken on 10-15 acres each. The new farmers usually lament the low prices paid by the state and a lack of interest in farming by Cuban youth, but otherwise claim to be proud that they can do something to provide for their country and family. It is unlikely this initiative will affect overall Cuban agricultural production in 2009, which reportedly fell by 9.3 percent through June. Once all 690,000 hectares (or more) are productive, then we may start to see a positive impact throughout the country. While agriculture production itself represents less than 5 percent of GDP, any increase in the domestic production of agricultural products that can replace costly imports will help ease Cuba's financial problems.

Comment

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18. (C) The week following the National Assembly, First Vice President Machado Ventura traveled around the country visiting agriculture cooperatives, refineries, and laboratories. With no new initiative to tout, Machado's primary message simply repeated the GOC's mantra for perfecting the socialist system through hard work, savings, and efficiency. With a bleak outlook for 2010 and no Party Congress to look forward to, these words have become meaningless slogans to any Cubans who are still listening.
FARRAR